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ONE ARTICLE FROM DER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW
ENDING 23 MARCH 1978.

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BRAZIL: FUTURE SUPERPOWER IN AGRICULTURE.

1. TREMENDOUS NATURAL RESOURCES AND STRONG GOVERNMENT SUPPORT FOR AGRICULTURAL DEVELOPMENT SHOULD MAKE BRAZIL THE NEXT SUPERPOWER IN WORLD AGRICULTURE. SHORT-RUN PROSPECTS FOR INCREASED EXPORT EARNINGS HAVE BEEN DAMPENED BY SEVERE DROUGHT AND WEAKENING WORLD PRICES FOR COCOA AND COFFEE.

STELLAR PERFORMANCE IN 1977.

2. RECORD EARNINGS FOR COFFEE, COCOA, AND SOYBEANS MADE BRAZIL THE WORLD'S THIRD LARGEST EXPORTER OF AGRICULTURAL COMMODITIES IN 1977--BEHIND THE UNITED STATES AND FRANCE. AGRICULTURAL SALES TOTALLED \$6.7 BILLION, 55 PERCENT OF BRAZIL'S EXPORT EARNINGS. COFFEE SALES REACHED A PEAK OF \$2.6 BILLION; SOYBEAN AND SOYBEAN PRODUCTS POSTED A \$2.1 BILLION TOTAL. COCOA ACCOUNTED FOR ANOTHER \$530 MILLION AND SUGAR FOR ABOUT \$465 MILLION.

3. BRAZIL WAS ABLE TO CAPITALIZE ON STRONG WORLD MARKETS FOR COFFEE AND COCOA, WHILE SOYBEANS AND SOYBEAN PRODUCT EARNINGS WERE UP DUE TO AN AMBITIOUS AGRICULTURAL DEVELOPMENT PROGRAM STARTED IN THE EARLY 1970S. BRAZIL'S CONTINUED EFFORTS TO BECOME THE WORLD'S LARGEST COCOA PRODUCER SUSTAINED PRODUCTION IN THE FACE OF ADVERSE WEATHER. EXPANSION OF SOYBEAN PRODUCTION RESULTED IN A RECORD CROP OF 12 MILLION TONS, NEARLY EIGHT TIMES THE LEVEL OF 1970. SUGAR PRODUCTION REACHED A NEW HIGH OF 7.5 MILLION TONS, WHILE THE MASSIVE COFFEE REJUVENATION

Approved For Release 2002/01/30 : CIA-RDP79T01316A001000040007-9

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PROGRAM--BEGUN AFTER THE SEVERE FROST IN 1975--ENABLED PRODUCTION TO RECOVER TO ALMOST DOUBLE THE 1976 OUTPUT. WHEAT PRODUCTION REACHED A NEW HIGH OF 3 MILLION TONS AS THE GOVERNMENT PUSHED AHEAD TOWARD ITS GOAL OF SELF-SUFFICIENCY.

PROSPECTS FOR 1978.

4. THE SEVERE DROUGHT THAT HAS PLAGUED SOUTHERN BRAZIL SINCE THE BEGINNING OF 1978 THREATENS TO REVERSE THE TREND IN THE 1970S OF STEADILY RISING AGRICULTURAL EXPORTS. WHEAT PRODUCTION HAS ALREADY SLIPPED BECAUSE OF UNFAVORABLE WEATHER, FORCING BRAZIL TO BOOST IMPORTS BY ALMOST 1 MILLION TONS. THE CORN AND RICE CROPS ALMOST CERTAINLY ARE BEING SLASHED BY DROUGHT; EXPORT SALES FROM THESE COMMODITIES WILL BE NEGLIGIBLE. THE REDUCTION IN THE SOYBEAN CROP AND POTENTIAL DAMAGE TO COFFEE PRODUCTION COULD BE MOST DAMAGING OF ALL TO SHORT-TERM ECONOMIC PROSPECTS.

5. THE FORECAST OF SOYBEAN PRODUCTION HAS BEEN LOWERED FROM 12.5 MILLION TONS TO THE CURRENT USDA ESTIMATE OF 10.5 MILLION TO 11.0 MILLION TONS. DESPITE THIS MARKED REDUCTION, A JUMP IN WORLD PRICES IS UNLIKELY; THE UNITED STATES HAD A BUMPER 1977 SOYBEAN CROP, AGREENGINE OUTPUT IS UP, AND US PLANTING INTENTIONS FOR 1978 ARE HIGHER. BRAZIL'S EXPORT EARNINGS FROM THE SALE OF SOYBEANS AND SOYBEAN PRODUCTS COULD DROP MORE THAN \$400 MILLION COMPARED WITH 1977.

6. A CONTINUATION OF THE DROUGHT WOULD ALSO HURT COFFEE EARNINGS. EVEN THOUGH A LARGE REDUCTION IN THE CURRENT CROP--BELOW RECENT ESTIMATES OF 20 TO 21 MILLION BAGS--WOULD ITSELF HELP BOLSTER WORLD PRICES, THE WORLD OUTLOOK IS DOMINATED BY DECREASED CONSUMPTION AND SAGGING PRICES. THIS, COUPLED WITH HISTORICALLY LOW BRAZILIAN STOCKS, IMPLIES THAT BRAZIL'S COFFEE SALES MAY BE OFF BY ABOUT \$100 MILLION IN 1978. A PROLONGATION OF THE DROUGHT WOULD CURTAIL BRAZIL'S FUTURE PRODUCTION BY DAMAGING THE YOUNGER COFFEE TREES.

7. SUGAR PRODUCTION IS LIKELY TO REACH ANOTHER NEW HIGH OF 8.9 MILLION TONS WHEN THE CURRENT HARVEST IS COMPLETED IN APRIL. ALTHOUGH BRAZIL HAS THE POTENTIAL TO INCREASE EXPORTS TO 3 MILLION TONS, IT IS LIMITED BY AN EXPORT QUOTA UNDER THE INTERNATIONAL SUGAR AGREEMENT. LOW SUGAR PRICES AND THE QUOTA LIMITATION WILL PREVENT BRAZIL FROM INCREASING SALES.

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8. COCOA PRODUCTION ONCE MORE HAS BEEN CURBED BY INCLEMENT WEATHER AND PROBABLY WILL REMAIN AT LAST YEAR'S LEVEL. LOWER PRICES AND STRONG DOMESTIC CONSUMPTION SUGGEST A REDUCTION IN EXPORT SALES BY ABOUT \$200 MILLION IN 1978, GOVERNMENT PROGRAMS TO DATE.

9. DESPITE THE ANTICIPATED CUT IN AGRICULTURAL EXPORTS IN 1978, BRAZIL'S RECENT AGRICULTURAL RECORD CANNOT BE MATCHED BY ANY OTHER COUNTRY. FROM 1970 TO 1977, EARNINGS FROM AGRICULTURAL EXPORTS ROSE FROM \$1.8 BILLION TO \$6.7 BILLION. PRODUCTION OF SOYBEANS INCREASED NEARLY SEVENFOLD; COCOA, BY 17 PERCENT; CORN, BY ONE THIRD; WHEAT, BY NEARLY 120 PERCENT; AND RICE BY 45 PERCENT. RAPID EXPANSION OF THE CITRUS INDUSTRY ENABLED BRAZIL TO BECOME THE WORLD'S LARGEST EXPORTER OF FROZEN CONCENTRATED ORANGE JUICE. BRAZIL NOW PLACES SECOND ONLY TO THE SOVIET UNION IN TOTAL SUGAR OUTPUT AND HAS MAINTAINED ITS POSITION AS THE WORLD'S LARGEST COFFEE PRODUCER AND EXPORTER.

10. SEVERAL FACTORS ACCOUNT FOR BRAZIL'S SUCCESS. ABUNDANT FARM LAND, A FAVORABLE CLIMATE FOR GROWING A WIDE VARIETY OF COMMODITIES, AND MASSIVE DOMESTIC AND FOREIGN INVESTMENT IN AGRICULTURE ARE IMPORTANT ELEMENTS. BUT EVEN MORE IMPORTANT ARE THE MYRIAD GOVERNMENT PROGRAMS AIMED AT DEVELOPING AGRICULTURE. THE EMPHASIS ON AGRICULTURE HAS BEEN ESPECIALLY PRONOUNCED DURING THE PAST TWO TO THREE YEARS UNDER PRESIDENT GEISEL'S ADMINISTRATION.

11. GOVERNMENT PROGRAMS NOW COVER MOST FACETS OF PRODUCTION AND TRADE, INCLUDING (A) MINIMUM PRICES FOR AGRICULTURAL PRODUCTS; (B) CREDIT ARRANGEMENTS FOR PRODUCTION INPUTS SUCH AS SEED, MACHINERY, AND FERTILIZER; (C) FUNDING FOR AGRICULTURAL RESEARCH AND EXTENSION; (D) DEVELOPMENT OF RURAL INFRASTRUCTURE; (E) TAX INCENTIVES FOR PRODUCTION AND EXPORTS; AND (F) EXPORT SUBSIDIES FOR CERTAIN COMMODITIES. THE GOVERNMENT IS ALSO ACTIVE IN REGULATING EXPORTS AND EXPORT PRICES FOR SEVERAL COMMODITIES EVEN THOUGH MOST EXPORTS ARE MADE BY PRIVATE COMPANIES OR COOPERATIVES.

12. GOVERNMENT INVOLVEMENT IN AGRICULTURAL DEVELOPMENT IS BEST ILLUSTRATED BY THE MAGNITUDE OF THE INCREASE IN AGRICULTURAL CREDITS. IN 1974, CREDIT FOR THE AGRICULTURAL SECTOR TOTALED \$6.5 BILLION; BY 1976, THIS AMOUNT HAD MORE THAN DOUBLED, TO \$13.5 BILLION. DURING THE SAME PERIOD, ANNUAL FERTILIZER USAGE INCREASED FROM 1.4

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MILLION TONS TO 2.3 MILLION TONS, LARGELY BECAUSE OF INCREASED AVAILABILITY OF CREDIT.

13. ALTHOUGH CROP YIELDS HAVE RISEN SLIGHTLY, PRODUCTION INCREASES HAVE OCCURRED LARGELY THROUGH THE RAPID EXPANSION OF FARMLAND. ACRE PLANTED TO GRAINS AND SOYBEANS INCREASED FROM 29 MILLION HECTARES IN 1970 TO 39 MILLION HECTARES IN 1977. SOYBEAN PLANTINGS ALONE INCREASED BY 5.6 MILLION HECTARES. MOST OF THIS INCREASE RESULTED FROM THE DEVELOPMENT OF NEW LANDS IN SOUTHERN BRAZIL. SUGARCANE PLANTED AREA HAS DOUBLED, WITH EXPANSION OCCURRING LARGELY IN THE NORTHEAST WHERE A DOUBLING OF COCOA PLANTATIONS IS ALSO UNDERWAY.

14. THE AVAILABILITY OF NEW LAND IN SOUTHERN BRAZIL IS RAPIDLY DIMINISHING. DEVELOPMENT OF THE CERRADOS, BRAZIL'S CENTRAL PLATEAU REGION, IS NOW PROGRESSING. GOVERNMENT EFFORTS IN THIS AREA INCLUDE AN INITIAL INVESTMENT OF \$1.6 BILLION TO DEVELOP 3.7 MILLION HECTARES FOR PRODUCTION OF WHEAT CORN, COFFEE, AND SOYBEANS. THIS PROJECT COULD ADD AN ADDITIONAL 40 PERCENT TO SOYBEAN PLANTED ACRE.

GOVERNMENT TARGETS AHEAD.

15. CURRENT GOVERNMENT POLICIES WILL SUSTAIN THE STRONG PUSH FOR AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION, WITH THE MAJOR EMPHASIS ON SOYBEANS. A LARGE PORTION OF THE PARANA COFFEE AREA DESTROYED BY FROST HAS ALREADY BEEN PLANTED TO SOYBEANS, AND ADDITIONAL LARGE TRACTS WILL BE PLANTED AS PART OF THE MASSIVE DEVELOPMENT PROGRAM FOR THE CENTRAL PLATEAU. IF THE SOYBEAN COMPONENT OF THE PROJECT SUCCEEDS, BRAZIL WILL PRODUCE 20 MILLION TONS OF SOYBEANS BY 1985. THE LOSS OF THE PARANA COFFEE AREA IS BEING OFFSET BY EXTENSIVE PLANTINGS ELSEWHERE OF HIGHYIELDING VARIETIES; NEW PLANTINGS ARE MAINLY IN FROSTFREE AREAS.

16. BRASILIA IS ALSO EMPHASIZING THE EXPANSION OF SUGAR AND COCOA PRODUCTION. AN AMBITIOUS DEVELOPMENT PROGRAM BEGUN IN THE EARLY 1970S SHOULD RAISE SUGAR PRODUCTION TO 10 MILLION TONS BY 1980. THIS EXPANSION WILL SUPPORT A MAJOR PROGRAM TO CONVERT SUGAR TO ALCOHOL FOR USE IN AUTOMOBILE ENGINES. THIS PROGRAM, TO COST \$1.6 BILLION IN ITS INITIAL STAGES, IS TO RESULT IN THE ANNUAL PRODUCTION OF 4 BILLION LITERS OF ALCOHOL (THE EQUIVALENT OF 43,000 B/D OF OIL) TO HELP REDUCE BRAZIL'S OIL IMPORT BILL. IN ADDITION, BRAZIL HOPES TO EXPAND ITS ROLE AS A MAJOR SUGAR EXPORTER BY EXPLOITING ITS NEW EXPORT QUOTA OF 2.35 MILLION TONS UNDER THE INTERNATIONAL

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SUGAR AGREEMENT. BRAZIL'S EXPORTS OF SUGAR AVERAGED ONLY 1.7 MILLION TONS IN 1974-76.

17. ANOTHER GOAL OF THE BRAZILIAN GOVERNMENT IS TO BECOME THE WORLD'S LARGEST COCOA EXPORTER BY 1990. BRAZIL NOW RANKS AS THE WORLD'S NUMBER TWO PRODUCER ALONG WITH THE IVORY COAST, BEHIND GHANA. A TOTAL OF \$41 MILLION WAS SPENT ON COCOA RESEARCH, EXTENSION, AND INFRASTRUCTURE DEVELOPMENT IN 1975, AND SIZEABLE SUMS PROBABLY WERE SPENT IN 1976 AND 1977. CREDIT EXTENSIONS TO COCOA PRODUCERS TOTALED ALMOST \$100 MILLION IN 1975. SUCCESSFUL DEVELOPMENT OF THE AMAZON VALLEY AND REJUVENATION OF PRODUCTION IN THE TRADITIONAL PRODUCING AREA OF BAHIA COULD RESULT IN A COCOA CROP OF 700,000 TONS BY 1990 COMPARED WITH PRODUCTION OF 235,000 TONS IN 1977.

18. CONSIDERABLE ATTENTION HAS ALSO BEEN PAID TO EXPANDING PRODUCTION OF GRAIN CROPS. THE GOVERNMENT VIEWS INCREASES IN CORN AND RICE OUTPUT AS NECESSARY TO MEET EXPANDING DOMESTIC NEEDS AS WELL AS TO GARNER LARGE FOREIGN EXCHANGE EARNINGS. AS FOR WHEAT THE GOAL IS TO ATTAIN SELF-SUFFICIENCY IN THE NEXT FIVE YEARS. WE DOUBT THIS CAN BE ACHIEVED, GIVEN THE CONTINUED STRONG INCREASE IN DOMESTIC CONSUMPTION.

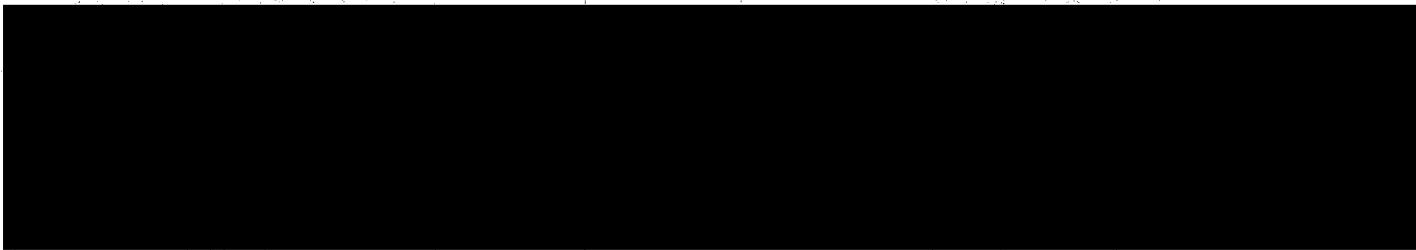
IMPLICATION OF AGRICULTURAL DEVELOPMENT.

19. BRAZIL WILL EXPAND ITS POSITION AS A MAJOR COMPETITOR OF THE UNITED STATES IN AGRICULTURAL EXPORTS AND AS A KEY SUPPLIER OF US AGRICULTURAL IMPORT NEEDS. BARRING MAJOR CROP FAILURES, BRAZIL WILL CUT INTO US EXPORT SALES OF SOYBEANS AND PRODUCTS; INCREASES IN THIS WORLD MARKET SHARE COULD BE TEMPERED BY HIGHER DOMESTIC DEMAND. BRAZIL PROBABLY MUST FACE UP TO GREATER IMPORT DEMAND FOR WHEAT AS THE GOVERNMENT'S DRIVE FOR SELF-SUFFICIENCY IN WHEAT PRODUCTION RUNS INTO DOMESTIC OPPOSITION BECAUSE OF THE LOWER COST OF IMPORTED WHEAT. AS FOR THE TRADITIONAL EXPORTS CROPS, THE COFFEE INDUSTRY WILL BECOME EVEN MORE INFLUENTIAL IN INTERNATIONAL MARKETS SINCE BOTH WORLD AND BRAZILIAN STOCKS ARE AT HISTORIC LOWS. BRAZIL ALSO IS IN A STRONG POSITION TO ACHIEVE ITS GOAL OF BECOMING THE NUMBER ONE COCOA EXPORTER BY 1990. BRAZILIAN EMERGENCE AS A SPOKESMAN FOR LDC COMMODITY PRODUCERS FORESHADOWS MORE FREQUENT CONFRONTATIONS WITH THE UNITED STATES OVER INTERNATIONAL COMMODITY ISSUES. (CONFIDENTIAL)

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